DOCUMENT RESUME

ED 216 256 CG 015 870

AUTHOR Kingson, Eric R.
TITLE Reagan, Pickle and Pepper: Coercive Versus Voluntary Approaches to Encouraging Later Retirement.
SPONS AGENCY University of Southern California, Los Angeles. Ethel Percy Andrus Gerontology Center.
PUB DATE 9 Nov 81
NOTE 34p.; Paper presented at the Joint Annual Meeting of the Scientific Gerontological Society (34th) and the Scientific & Educational Canadian Association on Gerontology (10th), (Toronto, Ontario, Canada, November 8-12, 1981).

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Economic Factors; Employed Women; *Employment Patterns; Gerontology; *Incentives; *Labor Legislation; Minority Groups; Models; *Motivation Techniques; *Older Adults; Public Policy; *Retirement Benefits; State of the Art Reviews
IDENTIFIERS *Social Security

ABSTRACT

A model for examining the two basic approaches of encouraging later retirement is presented in which the coercive approach relies primarily on negative incentives such as benefit reductions, and the voluntary approach encourages continued employment through positive incentives and increased employment opportunities. The degree to which these approaches maximize four policy objectives is assessed in terms of: (1) providing work incentives for older workers; (2) offering adequate incomes; (3) maintaining equitable treatment; and (4) meeting financial commitments of the social security system. Costs and benefits of these approaches to healthy and unhealthy older workers, women, and minorities are identified. The paper concludes that, in the absence of improvements in employment opportunities for older workers, voluntary approaches provide the only equitable means of encouraging later retirement. (JAC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED216256

REAGAN, PICKLE AND PEPPER: COERCIVE VERSUS VOLUNTARY APPROACHES TO ENCOURAGING LATER RETIREMENT

prepared for

The Employment and Retirement Division of the
Institute for Policy and Program Development
Andrus Gerontology Center
University of Southern California

and for

presentation at the 34th Annual Meeting of the
Gerontological Society of America
Toronto, Canada
November 9, 1981

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☒ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Eric R. Kingson

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

Eric R. Kingson, Ph.D.
University of Maryland at Baltimore
School of Social Work and Community Planning
525 West Redwood Street
Baltimore, Maryland 21201

CG 015870

Why, when there is so much agreement that encouraging older persons to work longer is a desirable policy goal, is there so much disagreement concerning appropriate means? The answer, as suggested by this paper, is that approaches to encouraging later retirement have different impacts on specific groups of older workers and also require different trade-offs between retirement policy objectives. At a time in which the Congress and the Executive branches of government are giving increased attention to retirement age policy, it is important to identify these impacts and trade-offs.

There are essentially two basic approaches to encouraging later retirement. Coercive approaches rely primarily on negative incentives--that is, benefit reductions--to encourage continued employment. In contrast, voluntary approaches encourage later retirement through the use of positive incentives that increase the value of social security for working past age 65 and by increasing full- and part-time employment opportunities for older workers.

This paper has two objectives. First, it assesses the degree to which coercive and voluntary approaches maximize four different and often conflicting retirement policy objectives: 1) providing work incentives for older workers, 2) income adequacy, 3) the equitable treatment of older persons, and 4) meeting the financial commitments of the social security system. Particular attention is paid to the work incentive objective.

Second, this paper identifies the costs and benefits of these approaches to four groups of older persons: 1) healthy older workers, 2) unhealthy older workers, 3) women and 4) minorities. This is accomplished within the context of the analysis identifying trade-offs between the approaches in terms of meeting policy objectives.

Presently three retirement age proposals are before Congress. Although major legislative action in this area is unlikely prior to the 1982 elections, the existence of these proposals provides an opportunity to examine the impact of concrete operationalizations of both coercive and voluntary approaches to encouraging later retirement. Consequently, the analysis in this paper relates to the differential impacts that would result from enactment of these proposals. Two of the proposals (Pickle and Reagan) can be classified as "coercive". The Pickle Bill would encourage later retirement by gradually increasing the normal age of retirement to 68 in the social security program. The Reagan proposal seeks to encourage later retirement by reducing the value of social security benefits, especially for persons retiring before age 65. The third proposal--the Pepper Older Worker Employment Incentives Act--is consistent with the voluntary approach. It would encourage later retirement by increasing the value of social security benefits for postponed retirement and by the elimination of age discrimination and other barriers to the employment of older workers.

The paper begins with a brief review of the factors that have converged to make retirement age policy a national issue. Then, the Pickle, Reagan and Pepper proposals are described. The major portion of the paper analyzes the impact of coercive and voluntary approaches on the four policy objectives.

The basic argument developed in this paper is that later retirement can be encouraged quite adequately by either voluntary or coercive approaches. The choice of approaches will probably depend on the relative value placed on the goal of reducing short-term and long-term funding deficits in the social security system versus the goals of the adequate and equitable treatment of program participants. The coercive approach can be expected to produce more

social security savings, but at the cost of significant reductions in benefits for groups that often experience limited employment opportunities--older women, minorities and partially disabled older workers.

THE EMERGENCE OF THE RETIREMENT AGE ISSUE

Since the end of World War Two, increased early retirement has been one of the dominant trends in the economy. As reduced early retirement benefits became available under the social security program for workers retiring between the ages 62 and 64, growing numbers of men and women have accepted these benefits. In 1977 for example, we find that 68 percent of retiring male workers and 78 percent of retiring female workers accepted reduced early retirement benefits. Labor force participation rates of men also reflect this trend. Between 1947 and 1979, labor force participation among men aged 55 to 64 has dropped by over 16 percent, from 89.6 to 73 percent. The growing separation from the labor force of men aged 65 and over is even more dramatic. Labor force participation of this group is less than half of what it was in 1947--having declined from 45.8 percent to 20 percent. Reflecting the trend of married women entering the labor force, the labor force participation of women aged 55 to 64 has increased between 1947 and 1979 from 24.3 to 41.9 percent. This increase, while dramatic, is considerably smaller than the increased involvement of younger female cohorts, suggesting the likelihood that the trend toward increased labor force participation among women is somewhat offset in the older cohorts by the early retirement trend. In fact, among women aged 65 and over, labor force participation has remained fairly stable during these years, at about nine percent.

What explains the trend toward early retirement? There are two somewhat conflicting answers to this question. The first explanation suggests that

the growing availability of early retirement benefits in social security and private pensions has encouraged workers to leave work before age 65. This is presently the dominant explanation and one of the implicit assumptions of coercive approaches to encouraging later retirement. The second perspective suggests that chronic unemployment in the American economy is a more fundamental explanation. This line of reasoning suggests that the early retirement option has been made widely available to older American workers as a means both of encouraging the retirement of older workers capable of continued employment and to ameliorate the unemployment of others. This perspective suggests that encouragement of later retirement cannot be accomplished simply through the use of employment incentives. As will be discussed in the conclusion, the outcome of current retirement age debate will be greatly influenced by the extent to which one of these perspectives predominates.

The emergence of current concern over retirement age policy is clearly linked to issues of cost. At a time in which the older population is growing and living longer, serious questions are being asked about whether the Country can afford to have retirement policies setting the normal retirement age at 65 and allowing--and in some cases--encouraging retirement well before 65. A related cost issue concerns whether the economy can afford the loss of capable and productive older workers.

Presently, 11.2 percent of the population is aged 65 and over. As the post-World War II babies reach retirement age, the aged are expected to grow as a percent of population to as much as 18.3 percent of the population by 2030 (Special Committee on Aging, 1980). While the growth of the aged population is somewhat offset by the decline in the under 18 population, it is clear that the support of social security will place a considerably larger

burden on the future working population. Also, assuming the continuance of present retirement patterns, labor shortages can be expected to materialize, especially during the period in which the war babies retire.

The older population is also living longer. When the social security system payed out its first benefits --1940--life expectancy at age 65 was about 13 years. Today, it is 16.3 years, an increase of over 3 years. An Actuarial note recently published by the Social Security Administration presents measures of the ratio of retirement expectancy to total work experience for the population. The findings suggest that "a retirement age in 1980 equivalent to age 65 retirement in 1940 is more than 69 years." By 2000, the equivalent age would be more than 71 and by 2025, more than 72 (Social Security Administration, June 1981). Assuming that age 65 continues as the normal retirement age, this lengthening of retirement relative to work results in an added burden on the future working population.

The combined trends of early retirement, a growing aged population, a shrinking working-age population and increasing life expectancies are the primary forces driving the long-term financial deficits of the social security system. The short-run problems of the system can be explained primarily by the failure of the economy to operate as expected. The unusually high rates of inflation have not been matched by parallel wage increases during the last few years. This has resulted in higher than expected costs and revenues. The situation is aggravated by high rates of unemployment which also reduce the system's revenues.

The retirement age issue is emerging in a conservative political context. Congress having felt they disposed with the distasteful issue of social security financing in 1977, is not pleased by the need to deal with it again. Small cuts

have been made in the social security program during 1981, and the possibility of large cuts no longer appears politically infeasible. Further, the thrust of the present Congress and this Administration is to control the growth of social programs, of which social security is by far the largest. Consequently, as budget deficits deepen, it is increasingly tempting to view the social security program as a source of both present and future budget reductions. Coercive and voluntary approaches to encouraging later retirement have emerged from and are being examined wtihin this context.

PICKLE, REAGAN AND PEPPER APPROACHES

As mentioned, the Pickle and Reagan proposals are representative of the coercive approach to encouraging later retirement while the Pepper Bill represents the voluntary approach. For this reason--independent of the immediate feasibility of enactment--they are worthy of analysis, especially in terms of their distributive effects. This analysis begins by identifying the major aspects of these proposals that have implications for a retirement age policy.

As part of a comprehensive legislative package concerned with social security financing (HR 3207), Congressman J.J. Pickle proposed gradually increasing the normal eligibility age for retirement benefits to age 68, beginning with 1990. By 2000, age 68 would be the normal age of retirement within social security. Age 62 would be maintained as the earliest age of eligibility for early retirement benefits, but the value of early retirement benefits would be significantly reduced. Under present law, retirement benefits are reduced 5/9ths of one percent for each month of retirement before age 65. Under the Pickle Bill, benefits would be reduced 1/2 of a percent for each month of retirement before age 68. At the earliest age of retirement--62--retirees presently receive 80 percent of the normal retirement benefit (80 percent of

the primary insurance amount - PIA). Under the Pickle Bill, their benefits would be reduced to 64 percent. Other sections of the Pickle Bill propose the elimination of the earnings test for persons over 68 and the repeal of the delayed retirement credit as of 1983.

The Pickle retirement age proposal is quite similar to those of several recent national study groups--the 1979 Advisory Council on Social Security, the President's Commission on Pension Policy, the National Commission on Social Security. These proposals differed slightly in that they tended to suggest a later and lengthier phase-in period and also suggested a gradual increase in the early retirement age to 65. Because of the similarity between the Pickle Bill and these other proposals, much of the analysis of the Pickle proposal pertains to these other proposals as well.

The Reagan social security financing package submitted to Congress in May 1981 contained six proposals which would conceivably encourage later retirement. First, effective in 1982, the Administration proposed to more than double the reduction for early retirement by reducing the retirement benefits by 1.25 percent for each month of retirement between the ages 62 and 65. Under this proposal workers retiring at age 62 would receive 55 percent of the normal retirement benefit. Second, the Administration favors the elimination of dependent's benefits for the children of early retirees.

Third, the removal of all non-medical factors from the disability determination decision in social security and SSI for older workers is proposed. Under present law, age, education and previous employment are taken into account when determining disability for older workers.

Fourth, a change in the computation points for average indexed monthly earning from age 62 to 65 would discourage early retirement because it would

result in the calculation of a smaller PIA for workers out of the labor force before age 65. This would also encourage continued work beyond age 65 because it would result in a reduction of benefits for most normal age retirees.

Fifth, the Administration proposes to reduce social security benefits by approximately 20 percent to be phased in between 1982 and 1987 through a technical revision of the benefit formula. Rather than increasing the bend points in social security benefit formula by 100 percent of wage increases, the Administration proposes a 50 percent increase betwee 1982 and 1987. Again, this might serve to encourage later retirement. Finally, to encourage employment beyond age 65, the Administration proposed elimination of the earnings test by 1985 (Select Committee on Aging, 1981a).

Like the Pickle approach, the Reagan approach to discouraging early retirement and encouraging later retirement is essentially coercive in that it relies primarily on negative rather than positive incentives. The major thurst of the proposals is to discourage early retirement by reducing the benefits of early retirees and to encourage work past age 65 by a general reduction in the level of benefits for all future retirees.

The Pepper bill (HR 3397) represents an altogether different approach to encouraging later retirement. In contrast with the two other proposals, it relies on positive rather than primarily negative incentives. A fact sheet developed by the House Select Committee on Aging lists the five major work-encouraging elements of the Older Worker Employment Incentives Act of 1981 as:

1) The graduated increase in the delayed retirement credit. Workers retiring after 1981 are scheduled to have benefit increases of three percent per year for each year of delayed retirement between the ages of 65 and 70. Under the Pepper proposal the value of the delayed retirement credit would increase by one percent per year for each year of postponed retirement between ages 65 and 70, averaging five percent a year for workers choosing to retire at age 70.

2) The liberalization, but not elimination of the earnings test. Persons earning less than $4000 above the earnings exemption ceiling would be subject to a smaller marginal tax on their benefits (25 percent up to the first $2000 and 33 percent for the next $2000). After that the current marginal tax of 50 percent would be applied. The earnings limit and bend points would be wage indexed.

3) Elimination of all forms of age discrimination in employment by closing loopholes and exemptions in the Age Discrimination in Employment Act.

4) The provision of tax credits up to $3000 in the first year and $1500 in the second to employers hiring low income workers aged 62 and over.

5) A provision to amend the Employment Retirement Income Security Act (ERISA) to require continued accrual of pension benefits for older workers after the normal age of retirement.

The voluntary approach embedded in the Pepper Bill is distinguished from coercive approaches by both the utilization of measures that increase the availability of employment for older workers and the substitution of positive for negative incentives to encourage later retirement. While not specifically identified as goals of the Act, the Pepper Bill is consistent with and would contribute to the development of other voluntary means of encouraging later retirement--including more retraining opportunities for older workers and flexible retirement opportunities.

PROVIDING WORK INCENTIVES

The extent to which the coercive and voluntary approaches are likely to encourage later retirement are examined in this section. The expected and general impacts are first discussed. Then, specific impacts on healthy older workers, unhealthy older workers, women and minorities are identified.

GENERAL IMPACT

Both the Reagan proposal and the Pickle Bill rely primarily on benefit reductions to encourage later retirement. In terms of encouraging continued employment until age 65, the Regan proposal offers the strongest motivation. Under current law, the average benefit of persons retiring at age 62 in 1985 will be $580.70. In contrast, under the Reagan proposal, the average benefit at age 62 would be $348.30. After age 65, the Administration proposal would continue to offer incentives to work since there would be an approximately 23 percent reduction in social security benefit levels which would make retirement more costly. Under the Pickle Bill, persons retiring at age 62 after the year 2000 would receive a benefit that is 16 percent less than under current law and persons retiring at 65 would receive 20 percent less. By reducing the benefits of persons retiring before age 68 by six percent a year and by eliminating the scheduled increase to three percent a year in the delayed retirement credit, the Pickle Bill creates a strong financial incentive to work until age 68.

The Pickle and Reagan approaches to encouraging later retirement are predicted on the assumption that older workers are or will in the future be willing and able to work longer.

Are coercive approaches to encouraging later retirement likely to work? Certainly, economic theory would suggest that both the Pickle and Reagan approaches would encourage later retirement by altering the work-leisure choices of future older workers. Increasing the reduction for early retirement would mean that the price of leisure relative to work would become more expensive. Second, there is an income effect that would discourage retirement. By increasing the cost of leaving work--that is, by reducing retirement benefits--

workers have less "income" available for the purchase of retirement leisure.

Empirical verification can also be found in the retirement decision literature. Robert Clark and David Barker's review of this literature finds that all the retirement decision research supports "the hypothesis that pension eligibility and higher levels of pensions wealth lead to earlier retirement" although the incentive offered by social security pensions is probably less than that offered by private and special public employees pensions (1981).

While it is generally agreed that social security benefit reductions will create an incentive for continued labor force participation, the strength of this incentive is difficult to estimate. If it is true that most early retirees leave work voluntarily in response to public and private pension incentives, then it can be argued that a reversal of these incentives will also reverse the early retirement trend. In testimony supportive of the Reagan Administration proposal before the Select Committee on Aging, Rita Ricardo-Campbell--a Hoover Institution economist--points out that a recent Social Security Administration study by Julian Abbott shows "conclusively that more than 80 percent of men aged 62 to 64 years old are healthy enough to work" (Ricardo-Campbell, 1981). She refers to findings showing that 8 percent of white men and 13 percent of black men aged 60 to 64 in 1971 stated that health prevented them for working in 1969.* These data are used to suggest that it is the presence of the early retirement option, not problems of health of unemployment that explain the decline in labor force participation of older workers. Michael Boskin's findings

---

*The interpretation of these findings is subject to dispute. First of all, in 1969 these men were age 58 to 62 when health prevented them from working. The data do not show how many more men were prevented from working when they reached ages 62 to 64. Second, other findings from the study show that among men age 60 to 64 in 1971 health was reported as affecting the work of 35 percent of the whites and 42 percent of the blacks (Abbott, 1980).

based on a survey of five-thousand households are also supportive of this position. He finds the income effect of social security benefits to be the single most powerful inducement to retirement of workers aged 62 and over, and the best explanation of the declining labor force participation among men aged 55 and over (Subcommittee on Social Security, 1981).

There is, however, a preponderance of data that suggests otherwise (Andrisani, 1977; Bixby, 1978; Kingson, 1981a; Parnes & Nestel, 1975; Sheppard, 1977). Virginia Reno's Analysis of data from the survey of Newly Entitled Beneficiaries shows that among men aged 62 to 64 retiring in 1969, only 22 percent listed reasons suggesting their retirement was voluntary. In contrast, fully 54 percent listed health and another 20 percent employment problems as their reason (Reno, 1976). Analysis of the Social Security Administration's Retirement History Survey data shows that health was the main reason for labor force withdrawal for nearly two-thirds of men aged 58 to 63 who were out of the labor force in 1969 (Schwab, 1976).

A Department of Labor Study mandated by the 1978 Age Discrimination in Employment Act and recently released by the House Select Committee on Aging (1981b) suggests that a social security benefit reduction strategy will not greatly increase the labor force participation of older workers. Using a retirement decision model developed for the Department of Labor, projections of the impact of reducing social security benefits by ten and twenty percent on labor force participation of persons aged 60 to 70 in 1985, 1990 and 2000 show that the effect of benefit cuts were "surprisingly small in size and inconsistent in direction". The ten percent cut is estimated to result in an expansion of the labor force by only 64,000 in 2000 (Select Committee 1981b). These findings may indicate that benefit reductions without accompanying

employment opportunities for older workers create strong incentive for continued work, but only those persons with continued employment opportunities are in a position to respond to these incentives. The rest can simply be expected to leave work accepting smaller social security pensions.

The Pepper Bill takes a different approach to encouraging work until age 65. By maintaining current benefit levels for early retirement, the Bill provides relatively little new monetary encouragement to continue work until age 65. However, one unique aspect of the Bill is its implied recognition of the difficulties older workers, especially low income older workers, experience finding employment. This is accomplished through a tax credit proposal to encourage employers to hire low income workers aged 62 and over. This proposal should increase the supply of employment opportunities for older workers. After age 65, the bill provides additional incentives for continued work by a graduated increase in the delayed retirement credit, requiring continued accrual of pension benefits for workers over 65, eliminating age discrimination including mandatory retirement, and liberalizing the earnings test.

The Pepper Approach seems to assume that a considerable number of older workers want to work longer and will if certain employment barriers are removed. A recent Harris Survey provides support for this assumption (Louis Harris and Associates, 1979). The survey shows that 53 percent of currently retired workers reported that they would have preferred full- or part-time employment when they retired and that among workers aged 50 to 64, 51 percent would prefer not to retire and "only 15 percent plan to retire before the normal retirement age."

Findings from the Department of Labor Age Discrimination in Employment Study (Select Committee on Aging, 1981b) also suggest that the Pepper Approach would lead to an increase in labor force participation among older workers.

The study estimates that the elimination of mandatory retirement "would result in 195,000 additional older men being in the labor force in 2000." Analysis that assumed a ten percent increase in future employer pension benefits when the normal age of retirement was 65 and a five percent increase when the normal age of retirement was below age 65, led to the conclusion that the labor supply of older workers in 2000 would increase by 49,100 under current age discrimination laws and by 67,700 if mandatory retirement is eliminated. While not directly testing the impact of increasing the delayed retirement credit in social security the findings imply that this approach would remove barriers to accrual of pension benefits for employment past age 65. In terms of the proposal to liberalize, but not eliminate the earnings test, the Pepper Bill would seem to offer less incentive than the Reagan and Pickle approaches which would eliminate the earnings test altogether. However, it should be pointed out that the Pepper approach is less costly and targeted to assist low and moderate income older workers.

Clearly, the impact of both coercive and voluntary approaches to encouraging the employment of older workers is highly dependent on the economic context in which they would be implemented. If labor shortages materialize, then the market place can be expected to encourage continued employment of older workers by the reversal of private pension early retirement incentives, by the elimination of employment barriers for older workers, by the development of more part-time employment opportunities and by encouraging the development of flexible retirement options. The increase of employment opportunities combined with the implementation of either approach would offer a powerful incentive for continued employment. Similarly, continued inflation at historically high levels can be expected to eventually impact the retirement decision in a manner that

encourages later retirement. Again, the combination of infaltion and either approach should provide significant incentives to later retirement.

Either approach would also serve to legitimate later retirement. For example, by establishing 68 as the normal retirement age, the Pickle Bill most clearly establishes a new publicly sanctioned retirement age. But, the Reagan and Pepper bill also indicate to the public that early retirement is becoming less acceptable and later retirement a national goal. The creation of public policy that establishes a goal of later retirement would probably modify retirement expectations, and it is probable that employer pensions would also respond by institutionalizing later retirement ages.

Both approaches to encouraging later retirement are capable of leading to greater labor force participation among older workers. Positive and negative incentives do seem to work, though there is room for diagreement concerning the magnitude of effect of particular incentive plans. It also appears that the magnitude of the impact of each approach will be largely conditioned by prevailing economic conditions.

An important question that needs to be examined now concerns the extent to which these approaches are likely to provide employment incentives for specific groups of older workers.

IMPACT ON SPECIFIC GROUPS

As has been pointed out, each of the Pickle, Reagan and Pepper proposals creates significant incentives for continued employment. The impact of these incentives on particular groups will vary greatly, depending upon the health and employment options available to these groups.

Healthy older workers are probably in the best position to respond--by postponing retirement--to the incentives established through enactment of any

of these proposals. The Reagan proposal would increase incentives for healthy workers with employment opportunities to continue working until at least age 65 starting in 1982. The approach assumes that there is an adequate supply of jobs in the economy to meet the employment demands of older workers. However, in an economy in which unemployment is hovering between 7 and 8 percent, large numbers of older workers willing and able to work are forced out of the labor market. In the short-run, the Administration's proposal would intensify the unemployment problems of some healthy older workers. The Pickle Bill would--like the Reagan proposal--encourage increased labor force participation in the future. Raising retirement age to 68 would, however, also intensify the unemployment problems of future older workers in a below full employment economy. The development of early retirement and normal retirement opportunities both nationally and within particular industries has been partially motivated by high levels of unemployment. Retirement has frequently been used to reduce unemployment. In the absence of employment opportunities, even healthy workers willing and able to work, may be unable to respond to these incentives. A chief advantage for this group of healthy workers of the voluntary approach as exemplieid by the Pepper Bill is that is seeks to expand the supply of jobs available to older workers through the elimination of age discrimination and tax credits to employers hiring low income older workers.

The problem of the coercive approaches to raising retirement age for unhealthy workers is that workers incapable of continued employment for health reasons simply cannot respond to the incentives that are established. It is true that not all workers with health problems are incapable of work, but plainly their employment opportunities are limited because they are less desirable to potential employers. This is especially the case in periods of high unemployment.

Since health is the major reason given for early retirement, it is probable that the Reagan proposals would greatly exacerbate the problems of a large portion of future early retirees. The additional proposal in the Reagan package to eliminate all non-medical factors from the social security disability determination process would result in an additional aggravation of the employment problems of unhealthy early retirees. Age, vocational and educational factors are presently taken into account when determining disability eligibility out of recognition of the special employment problems experienced by older workers with partial disabilities.

Raising retirement age to 68 would also have a similar impact on this group. A significant portion of older workers with health problems will remain unable to work until age 65, let alone 68, even if the demand for older workers greatly increases. The Pickle Bill while creating incentives to which some older workers with health problems could respond, would also result in expanding the cost of health induced unemployment for workers below age 65. In contrast, the Pepper Bill, while not likely to have a significant impact on the employment opportunities of the unhealthy group, would not result in benefit reductions.

Older women are more dependent on the social security system for income than older men. The majority (52 percent) of older women over 65 are widows in contrast to 14 percent of men. Older women are less likely to work than older men and, if they do, their earnings are likely to be less than men. For example, median income from earnings in 1976 was $4065 for couples, $2300 for unmarried men and $2040 for unmarried women (Women's Study Program, 1980). Income from social security is similarly distributed and in terms of private and special public employee pensions, where present, their value tends to be

considerably less for single women. Moreover, 60 percent of unmarried women compared to 46 percent of unmarried men and considerably fewer couples are entirely dependent on social security for their income.

Because of their increased dependence on social security income, it seems probable that given good health and the availability of employment, women are more likely than men to increase their work effort in response to the incentives established by both coercive and voluntary approaches. Consequently, in terms of examining the impact of these proposals, the issue that needs to be addressed concerns the extent to which women are in a position to respond to these incentives.

In comparison with older male workers, older female workers are more likely to hold service industry occupations which pay less, to work part-time due to job discouragement (Women's Studies Program, 1980), to have less seniority and job security, to not be covered by an employer pension, to experience more unemployment and to have experienced less consistent paid work histories due primarily to child-rearing and other homemaking responsibilities. The intermittent labor force involvement of older women presents particular problems to newly single women facing the necessity of employment for the first time in many years or perhaps simply the first time. Their lack of recent employment experience often combine with high levels of unemployment as well as age and sex discrimination to make labor force re-entry difficult.

In addition to increasing personal income, older women with employment opportunities may benefit from both approaches to encourage later retirement in another way. As Shirley Campbell (1980) points out, to advance professionally, women are often required to sustain great work effort during the same time that they are under the heaviest child rearing responsibilities. She suggests that efforts to raise retirement age could result in "less pressure to become established

while young." Also, it would seem that the gradual legitimization of a later retirement age might make mid-life labor force re-entry easier since employers would anticipate more years of post-training employment.

In spite of these positives, the coercive approaches to later retirement do present many of the same problems for women as for unhealthy and unemployed older workers. Data from the Survey of New Beneficiaries (Reno, 1975) show 67 percent of non-married women and 52 percent of married women stating that either health, compulsory retirement or job discontinuance was the reason they left their last job within three years of becoming entitled to social security benefits in 1969. Among non-married women entitled at age 62, 41 percent report health reasons and 17 percent job discontinuance. Given the limited employment options for many women, it would seem that the means to respond to the incentives that would be created by coercive or voluntary approaches are limited, especially for the poorest and those with the most limited labor force histories.

Disadvantaged minorities--Blacks, Hispanics, Native Americans and Pacific Asians--are also less likely to be in a position to continue employment in response to disincentives to retirement. Minority workers are more likely than whites to experience disabling health conditions (often occupationally-related) during late middle age. For example, in 1976, while 10.2 percent of social security (OASDI) recipients were black, about 15 percent of the disabled worker benefits went to blacks. Similarly, a 1977 survey of spanish surnamed persons in five western states show a proportaionately greater participation in the disability program among Hispanics (Social Security Administration Advisory Council Reports, 1979). Data from the National Longitudinal Survey of Men shows that black men who have withdrawn from the labor force before age 65 are more subject to work-limiting health conditions than white men (Sheppard,

1977). In her study of early labor force withdrawal of men aged 58 to 63, Karen Schwab (1975) observes:

> For black men, as for manual workers, health-imposed work limitations explain the disproportionate number out of the labor force.

While accurate data is not available on the health conditions of disadvantaged minorities and sub-groups within these classifications, as Fernaldo Torres-Gil points out "it is generally accepted that minorities fall far behind in the level of health care needed to sustain their work careers up to normal retirement age" (1980). The combination of health problems and the interaction of these conditions with greater occupational requirements for physical exertion greatly reduces the probability for continued employment of older minority workers.

Life expectancies of minorities are generally shorter. The life expectancy gap at age 65 between whites and groups defined as disadvantaged minorities is slowly closing and has closed for some groups. For example, 1978 data show that at age 65 whites can expect to live 16.3 years and "others" 16.1 years (Brottman, 1981). However, the proportion of minority populations reach age 65 is considerably smaller than white. Whereas about 11.5 percent of the white population is 65 and over, about 7.8 of the black population and 3.8 of Hispanics are over 65. Life expectancies at birth are also considerably shorter--74 for whites and 69.2 for "others."

Minority workers are also more likely to be low-wage workers, and have careers broken by periods of unemployment. They are likely to approach their later working years with considerably less employment security and pension protection. Assuming a labor market where jobs are scarce, the probability of their extending work in response to changing retirement age incentives is

greatly constricted. Because of the shorter life expectancies, fewer minorities reach the age at which these proposals would encourage later retirement. Once reaching these ages, the health status of disadvantaged minorities also limits their ability to continue working.

As has been discussed in this section, for various reasons the choice to continue working past age 62 or 65 is constricted for unhealthy older workers, women and minorities. On the other hand, healthy older workers with employment opportunities are in a position to respond positively to these incentives. The chief differences between the two basic approahces in terms of encouraging work are 1) the coercive measures (Pickle and Reagan) do not distinguish between workers who are capable of working and those that are not, whereas the voluntary approaches do and 2) the voluntary approach as exemplified by the Pepper Bill not only seeks to encourage later retirement, but is also directed at expanding employment opportunities. The implications of the differences can be seen in the examination of the impact of the approaches in terms of the goals of adequacy and equity.

ADEQUACY AND SOCIAL EQUITY*

Coercive approaches to encouraging later retirement compromise the goals of adequacy and social equity. As previously mentioned the Pickle approach represents a 20 percent cut in social security benefits by 2000 when the law would go into effect. Similarly, the Reagan proposal would result in reductions beginning with 1982. The impact on persons claiming benefits at or before age 62 would be a one-third reduction in benefits. For persons retiring after age 64, benefit reductions resulting from increasing the bend points in the PIA

---

*"Social Equity" refers to the treatment of persons in similar circumstances in a similar way.

formula and changing the computation points in the AIME by adding three years would, on the average, be 17 percent (Select Committee on Aging, 1981a). The potention cost of coercive approaches to encouraging later retirement for unhealthy older workers, women and minorities is quite high. Income data shows that these groups are more likely to have poverty or near-poverty income in retirement and are, on the whole, not in a good position to sustain benefit cuts.

In contrast, the voluntary approach to encouraging later retirement supplements rather than compromises the adequacy goal. For example, by encouraging job development through a tax credit, the Pepper Bill would increase the earnings potential for low income older workers. Also, the gradual increase in the delayed retirement credit would increase the adequacy of social security for low and middle income older workers. Its focus on removing discriminatory employment practices complements the goal of adequacy.

In terms of the social equity goal, the issue revolves around the reality that older workers face dissimilar work/leisure choices. Benefit reductions to encourage later retirement seems most fairly applied when used as a means of leveraging the continued employment of older workers with employment opportunities. However, where benefit reductions are applied to workers with no or very limited employment opportunities there are clear inequities. The employment opportunities for unhealthy older workers, minorities and women are more likely to be limited than those of other groups. Consequently, not only do the coercive proposals establish inequities between particular individuals, but certain social groups are also likely to be systematically disadvantaged by this approach.

To a lesser extent, it can be argued that the voluntary approach also establishes inequities between individuals and groups. Rather than using benefit

reductions to encourage later retirement, the voluntary approach relies on benefit increases. The same argument made with respect to the use of benefit reductions applies then to the voluntary approach. Certain workers and specific groups are less likely to be in a position to take advantage of these incentives. This, too, represents an inequity, though plainly it is not as harsh because no additional loss of benefits results from not responding to the incentive. Further, the aspect of the voluntary approach that seeks to create additional employment opportunities (especially for low income workers in the case of the Pepper Bill) is likely to be especially useful to minority, female and unhealthy older workers.

Closer examination of the Pickle and Reagan proposals identifies the potential impact of the coercive approach on the adequacy of social security for women. Under the Pickle Bill, the benefits of spouses, divorced and widowed women would eventually be reduced. Presently, the full spouse benefit for spouses who retire at age 65 is 50 percent of the PIA of the retired worker. Spouses electing to retire at an earlier age have their benefit reduced 25/36ths of a percent for each month of retirement prior to age 65 so that at age 62 they receive 75 percent of the spouse benefit--that is 37 1/2 percent of the other spouse's normal retirement benefit. The Pickle Bill would result in benefit reductions of 1/2 of a percent for each month of retirement before age 68. This means spouses electing to retire at age 62 would receive 64 percent of the full spouse benefit--or stated another way, 32 percent of what the working spouse retiring at age 68 would receive. Currently, benefits for widows without dependents are reduced by 19/40ths of a percent for each month of retirement before age 65. Healthy widows are eligibile to receive a benefit at age 60 worth 71 1/2 percent of the normal retirement benefit. Under the Pickle Bill,

widows electing benefits at age 60 would receive 64 percent of the full benefit as a result of the proposed reduction of 3/8ths of a percent for each month of acceptance of survivors benefits between age 60 and 68. Disabled widows without dependents retiring between ages 50 and 59 would still be eligible for survivors benefits, but almost all of these recipients would receive smaller benefits. At age 50, disabled widows would remain eligible to receive 50 percent of the normal retirement benefit. However, whereas current benefit levels of disabled widows retiring between 50 and 59 are scaled from 50 percent to about 71 percent of the PIA, the Pickle benefits would vary between 50 and 64 percent.

Another problem that many women will have with the Pickle approach to raising retirement age is, as previously discussed, many will be unable to find employment or continue employment until age 68. These will consist disproportionately of the most financially vulnerable.

The Reagan proposal also presents some specific problems for women. The proposal to change the computation points from age 62 to 65 is especially burdensome to women. Currently, the social security formula calculates the averaged index monthly earnings of a worker by using an averaging period from age 21 to age 62 or from 1951 to age 62 whichever is shorter. After dropping out the lowest five years of earnings the average monthly wage is computed. The Reagan proposal would extend the averaging period by three years. This would disadvantage women. One problem presently confronting women is that social security does not provide credit for years out of the labor force to perform homemaking functions. Consequently, women often have many years of zero earnings. Lengthening the averaging would further depress social security benefits for most women with work histories (Grossman, 1981).

The Reagan early retirement program would reduce the value of social security benefits for female workers retiring early, spouses and divorced spouses. Benefits for women retiring at age 62 would be reduced from 80 percent to 55 percent of the PIA. Wives and divorced wives retiring at age 62 as the dependent of a worker receive 27.5 percent of the PIA as opposed to 37.5 percent under current law (Miller, 1981). The proprtion of PIA received by widows would be unchanged, although formula changes would, of course, result in benefit reductions affecting widows and all other workers future retirees.

The most significant equity issues concern the potential impacts of the coercive approach on disadvantaged minorities. As previously discussed, primarily for reasons of health, shorter life expectancies, more physically demanding work and more limited employment opportunities, the choice to continue working past age 62 or 65 is generally more constricted for older minorities when compared to other older persons. Coercive approaches to encouraging later retirement seem likely to create new social inequities for older minorities. For example, a larger proportion of disadvantaged minorities would be forced to accept greatly reduced early retirement benefits if the Regan proposal is enacted. Similarly, while the life expectancy gap between minority and other members of the population is closing, the Pickle proposal which would not raise retirement age to 68 until 2000 is still likely to have a similar negative impact on minorities. Even if the life expectancy gap closes by then, it is reasonable to assume that occupational health, and the physical demands of jobs, and other factors limiting employment opportunity are likely to continue to limit the ability of disadvantaged minorities to respond to incentives for continued employment.

MEETING THE FINANCIAL COMMITMENTS OF SOCIAL SECURITY

All but the most optimistic projections suggest that there is a significant long-range deficit in the financing of the Old Age Survivors Disability Insurance program (OASDI)--"social security." Using two sets of intermediate assumptions about the performance of the economy and demographic changes, the 1981 report of the Social Security Trustees projects an average deficit over the next 75 years of either 0.93 percent or 1.82 percent of taxable payroll, depending upon which assumptions are accepted (Board of Trustees, 1981). Projections based on pessimistic assumptions show an even larger deficit. Bringing the system into actuarial balance will require either additional tax revenues or benefit reductions.

Raising the normal age of retirement under social security to 68 is one type of coercive approach which is being given active consideration because of its ability to produce significant long-run savings. For example, the Social Security Actuary's Office (1981) estimates the following costs and savings as a percent of taxable payroll from enactment of the Pickle Bill retirement age provisions:

Raising retirement age combined with eliminating the delayed retirement credit.	1.27 percent savings
Elimination of the earnings test	.05 percent cost

In the long-run, the Pickle retirement age proposals can be expected to produce a savings of 1.22 percent of taxable payroll. There would of course, be no short-run savings from the bill because retirement age would not begin to be raised until 1990 and then only gradually.

The other example of the coercive approach to encouraging later retirement that has been used in this paper would produce even greater savings. The Actuary's Office estimates the following long-run costs and savings

as a percent of taxable payroll from enactment of the Reagan retirement age proposals:

Increased actuarial reduction for early retirement	.71 percent savings
Elimination of dependents benefits for children of retired workers aged 62 to 64	.02 percent savings
Removal of non-medical factors from the social security disability determination process	.06 percent savings
Changing the computation points from 62 to 65	.25 percent savings
Increase the bend points in the social security benefit formula by 50 percent instead of 100 percent of wage increases between 1982 and 1987	1.29 percent savings
Eliminate the earnings test	.14 percent cost

The net long-run savings from the Reagan retirement age proposals would be 2.19 percent of taxable payroll. Because some of these proposals would go into effect by 1982, the Reagan approach would produce significant short-run as well as long-run savings.

By changing retirement expectations and behavior, the voluntary approach to encouraging later retirement can also be expected to produce long-run savings to the social security system. The exact amount of savings is difficult to predict because it is dependent on the degree to which positive incentives will change the retirement decision. If, for example, the Age Discrimination Employment Study projections are correct and the elimination of mandatory retirement would add almost 200,000 older workers to the workfroce by 2000, then it is clear that the Pepper proposal to eliminate mandatory retirement would produce significant savings to social security since fewer workers

would be collecting their benefits and more would be paying taxes. Similarly, the Pepper proposals to encourage later retirement by providing a tax credit for the employment of low income older workers and requiring continued accrual of benefits for older workers after the normal age of retirement would also reduce social security costs by increasing the older labor force. In terms of the long-run costs as a percent of payroll, the Actuary's Office projects the following changes from the two Pepper retirement age proposals that would alter the social security law:

Graduated increase in the delayed retirement credit	.02 percent cost
Liberalized earnings test	.01 percent cost

The Pepper Bill would have a long-run cost to social security of about .03 percent of taxable payroll. In addition, the tax credit proposal would increase general revenue expenditures by an estimated 31 million dollars in fiscal 1982 (Select Committee on Aging, 1981c). As discussed, significant long-run savings to social security can be anticipated as a result of workers altering their retirement expectations and behavior.

Even under the most optimistic projections of the ability of voluntary incentives to alter the retirement decision, there are two reasons why it is unrealistic to expect voluntary approaches to produce nearly as much savings for social security as coercive approaches. First, voluntary incentives are more expensive. Instead of eliminating benefits to encourage later retirement, the emphasis is on selective improvement of benefits to create work incentives Second, and more importantly, much of the savings that result from the use of coercive incentives comes from the loss of benefits among persons who are unable to find or hold work. In contrast, the voluntary

approach would not create savings for the social security system from these persons.

CONCLUSIONS

Given a lack of agreement concerning the relative importance of meeting the four retirement policy objectives discussed in this paper, there can be little consensus concerning whether later retirement should be encouraged by coercive or voluntary means. Both of these approaches are potentailly effective means of encouraging later retirement; however, each are associated with a different set of priorities in terms of meeting the goals of adequacy, equity and containment of the social security deficit.

Coercive approaches to encouraging later retirement corresponds with a willingness to compromise adequacy and equity goals for the purpose of reducing the long-term financing deficits in social security. On the other hand, more concern with adequacy and equity goals is consistent with voluntary approaches which seek to encourage continued labor force participation through positive incentives--benefit increases--rather than benefit reductions. In short, while coercive approaches to encouraging later retirement would produce greater savings in the social security program, they would do so primarily at the expense of older persons who experience limited opportunity for employment--especially unhealthy older workers, minorities, and older women.

Currently, the cost-savings goal is assuming primacy in the retirement debate. Support of this goal is justified in part, by the belief that the general decline in labor force participation of older workers during the past 35 years is a result of the increased availability of early and normal retirement benefits. What then follows are rather simple prescriptions. To encourage later retirement and reduce social security costs, simply raise retirement age and/or reduce benefits for early retirees.

As this paper has suggested, considerable evidence exists to challenge the belief that the great majority of older workers leave work voluntarily and in good health. Also, analysis of the development of early and normal retirement options within specific industries and in the country as a whole suggests that historically retirement policy has been used as a means of reducing unemployment by enticing older workers out of the labor force in exchange for a pension (Kingson, 1981b). To the extent that older workers do not have control over their retirement (or continued employment) decision, then reliance on coercive means to encourage later retirement will result in faulty policy, based on false premises that exact significant costs from the most vulnerable older persons. In the absence of a general improvement in the employment opportunities for older workers and in the availability of disability benefits for older workers with health problems, voluntary approaches provide the only equitable means of encouraging later retirement.

REFERENCES

Abbott, Julian. 1977. "Socioeconomic Characteristics of the Elderly: Some Black-White Differences." Social Security Bulletin (July): 16-43.

Andrisani, Paul J. 1977. "Effects of Health Problems on the Work Lives of Middle-Aged Men." Industrial Gerontology (Spring): 97-112.

Bixby, Lenore E. 1976. "Retirement Patterns in the United States: Research and Policy Interactions." Social Security Bulletin (August): 3-19.

Board of Trustees, Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds. 1981. "1981 Annual Report of the Board of Trustees." Washington, D.C.; July 2.

Boskin, Michael J. 1981. Testimony before the Subcommittee on Social Security, House Ways and Means Committee, Hearings entitled "Social Security Financing Issues." Washington, D.C.: U.S.G.P.O.

Campbell, Shirley. 1979. "Delayed Mandatory Retirement and the Working Woman." Gerontologist (June): 257-263.

Clark, Robert L. and David T. Barker. 1981. Reversing the Trend Toward Early Retirement. Washington, D.C.; American Enterprise Institute.

Grossman, Carol Burroughs. 1981. Testimony before the Subcommittee on Social Security, Senate Finance Committee. Washington, D.C.: U.S.G.P.O.: June 9.

Harris, Louis and Associates, Inc. 1979. "1979 Study of American Attitudes Toward Pension and Retirement." New York, N.Y.: Johnson and Higgins.

Kingson, Eric R. 1981a. "The Health of Very Early Retirees." Aging and Work (Winter): 11-22.

Kingson, Eric R. 1981b. "Involuntary Early Retirement." The Journal of the Institute of Socioeconomic Studies (Autumn): 27-39.

Miller, Dorothy. 1981. "The Feminization of Poverty: Women and Proposed Social Security Cuts." Washington Social Legislation Bulletin (August 24): 61-64.

Parnes Herbert S. and Gilbert Nestel. 1975. "Early Retirement" in The Pre-Retirement Years - Volume 4. U.S. Department of Labor. Washington, D.C.: U.S.G.P.O.

Reno, Virginia P. 1976. "Why Men Stop Working at or Before Age 65" in Reaching Retirement Age: Findings from the Survey of Newly Entitled Workers 1968-70. Social Security Administration. Washington, D.C.: U.S.G.P.O.

Ricardo-Campbell, Rita. 1981. Testimony before the Subcommittee on Social Security, Senate Finance Committee. Washington, D.C.: U.S.G.P.O.: June 3.

Schwab, Karen. 1976. "Early Labor Force Withdrawal of Men: Participants and Nonparticipants Aged 58-63 in Almost 65: Baseline Data from the Retirement History Study. Social Security Administration. Washington, D.C.: U.S.G.P.O.

Select Committee on Aging, House of Representatives. 1981a. "Impact of the Administration's Social Security Proposals on Present and Future Beneficiaries." Washington, D.C.: U.S.G.P.O.: July.

Select Committee on Aging, House of Representatives. 1981b. "Abolishing Mandatory Retirement--an Interim Report." Washington, D.C.: U.S.G.P.O.: August.

Select Committee on Aging, House of Representatives. 1981c. "Prepare Employment Package--Fact Sheet." Washington, D.C.: U.S.G.P.O. (in mimeo).

Sheppard, Harold L. 1977. "Factors Associated with Early Withdrawal from the Labor Force" in Men in the Pre-Retirement Years. Seymour L. Wolfbein, Editor. Philadelphia, PA.: Temple University.

Social Security Advisory Council Reports. 1979. (in mimeo).

Social Security Administration. 1981. "Equivalent Retirement Ages: 1940-2050. Actuarial Note by Francisco R. Bayo and Joseph F. Farber. Social Security Administration.

Special Committee on Aging, Senate. 1980. "Developments in Aging: 1979." Washington, D.C.; U.S.G.P.O.

Torres-Gil, Fernando, Pauline Abbott and Pauline Ragan. 1980. "Older Minorities and Retirement Age Policies." Testimony prepared for the President's Commission on Pension Policy. Washington, D.C.: October 9.

Women's Studies Program and Policy Center in conjunction with the Women's Research and Education Institute of the Congresswomen's Caucus. 1980. "Older Women: The Economics of Aging." Washington, D.C.: U.S.G.P.O.